

Message Text

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APPROVED BY THE ACTING SECRETARY

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FM SECSTATE WASHDC

TO USDEL SECRETARY FLASH

C O N F I D E N T I A L STATE 205868 TOSEC 100284

NODIS

E.O. 11652: GDS

TAGS: OVIP (KISSINGER, HENRY A), EFIN

SUBJECT: ACTION MEMORANDUM - TREASURY - FED DISPUTE ON
CENTRAL BANK GOLD SETTLEMENTS
(S/S NO. 7517106)

FOR THE SECRETARY FROM INGERSOLL AND ENDERS

1. THE PROBLEM. THE TREASURY AND THE FED ARB AT ODDS
REGARDING THE POSITION THE U.S. SHOULD TAKE ON GOLD AT
THE UPCOMING MEETING OF THE IMF INTERIM COMMITTEE. WE NEED
YOUR APPROVAL BY THE OPENING OF BUSINESS TOMORROW TO
WEIGH IN ON THE ISSUE.

2. BACKGROUND. BY GETTING THE EC TO AGREE TO THEIR
POSITION AT VENICE THIS WEEK, THE FRENCH HAVE SUCCEEDED IN
PUTTING THE U.S. IN THE POSITION OF ODD-MAN-OUT ON THE
GOLD ISSUE. IF WE MAINTAIN OUR PAST STANCE, THE FRENCH
ARE NOW WELL POSITIONED TO PRODUCE A FAILURE OF NEXT
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WEEK'S IMF MEETINGS ON THE RELATIVELY INSIGNIFICANT GOLD

QUESTION - WITH U.S. INTRANSIGENCE AT FAULT. THIS WOULD BE A PERFECT SMOKE SCREEN FOR THE FRENCH BEING THE ODD-MAN-OUT ON THE MAJOR ISSUE, THE EXCHANGE-RATE REGIME. THE FRENCH WERE ABLE TO BRING OFF THIS BECAUSE SOME

EUROPEANS (PARTICULARLY THE ITALIANS) DESPERATELY WANT TO BE ABLE TO MOBILIZE THEIR GOLD WITHOUT RESTRICTIONS AND THE GERMANS AND BRITISH ARE CONVINCED THAT ECONOMIC HISTORY WILL DOOM GOLD'S MONETARY ROLE NO MATTER WHAT THE RULES ARE.

3. WITH THE ABOVE OUTCOME FOR THE IMF MEETINGS, GISCARD WILL BE ABLE TO PRESS HARD FOR A MONETARY SUMMIT THIS FALL. IF THE SUMMIT TAKES PLACE AND SUCCEEDS, GISCARD GETS THE CREDIT; IF IT FAILS OR WE REFUSE TO GO, THE U.S. IS TO BLAME. EQUALLY IMPORTANT, THERE WILL BE AN IMPORTANT DELAY IN GETTING THE QUOTA INCREASE AND USE OF IMF GOLD ESSENTIAL TO YOUR DEVELOPMENT SECURITY PLAN.

4. TO GET OUT OF THIS BOX, WE NEED TO DO TWO THINGS:
(1) MEET THE EUROPEANS MORE THAN HALF WAY ON GOLD AND
(2) BE PREPARED TO SETTLE ON OTHER ISSUES - QUOTA INCREASES, TRUST FUND FOR LDCS - EVEN IF FRANCE REMAINS INTRANSIGENT ON THE EXCHANGE-RATE ISSUE. IN THESE CIRCUMSTANCES, WE HAVE A GOOD CHANCE OF TURNING THE TABLES ON THE FRENCH SO THAT EITHER THEY HAVE TO CAVE OR FAILURE IS ASSOCIATED WITH GISCARD'S JOUSTING WITH HIS WINDMILL OF EARLY RETURN TO FIXED EXCHANGE RATES.

5. SIMON UNDERSTANDS THIS AND PROPOSES TO COMPROMISE GOLD OUT.

6. ARTHUR BURNS IS CONCERNED THAT SIMON MIGHT BE GIVING AWAY TOO MUCH ON GOLD. HE FEELS WE NEED A CLEAR AGREEMENT LIMITING CENTRAL BANK TRADING IN GOLD TO EMERGENCY SITUATIONS OR AT A MINIMUM TO AD HOC DEALS HAVING NOTHING TO DO WITH NORMAL SETTLEMENTS. WITHOUT THIS HE FEELS WE FACE THE FOLLOWING PROBLEMS:
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--GREATER RISK OF ESTABLISHMENT OF A GOLD SETTLEMENT BLOC IN EUROPE OR ELSEWHERE.

-- A VERY LARGE INCREASE IN LIQUIDITY WHICH COULD WEAKEN DISCIPLINE AND TEND TO LEAD TO MORE INFLATIONARY POLICIES.

--DISCRIMINATION AGAINST LDCS WHICH HAVE LITTLE GOLD.

7. WE BELIEVE THE POLITICAL CASE FOR OUR COMPROMISING
THE GOLD ISSUE IS A STRONG ONE. THE ECONOMIC RISKS SEEM

TO BE SMALL. THE COURSE OF HISTORY IS ASSURING THAT
GOLD CANNOT RETURN TO THE CENTER OF THE MONETARY SYSTEM.
IN THE CURRENT INFLATIONARY ENVIRONMENT, CENTRAL
BANKERS GENERALLY HOARD THEIR GOLD SO IT HAS LITTLE
POTENTIAL IN A TRANSACTIONAL ROLE. BY THE TIME THE
INFLATIONARY ENVIRONMENT CHANGES SIGNIFICANTLY, GOLD
WILL FORM A SMALLER PORTION OF THE WORLD'S RESERVES
WHICH WILL MAKE ITS REEMERGENCE AS THE FOUNDATION OF
THE SYSTEM DIFFICULT. THE EFFECTIVE INCREASE IN THE
VALUE OF GOLD RESERVES HAS ALREADY OCCURRED. AS FOR
DISCRIMINATION AGAINST LDCS, THIS AGAIN HAS ALREADY
DE FACTO OCCURRED AND IF THE LDCS CAN ACCEPT
RATIFICATION OF THIS SO CAN WE. YEO HAS AGREED WITH
ENDERS NOT TO ACCEPT ANYTHING LESS THAN A GENERAL
AGREEMENT ON NO INSTITUTIONALIZATION OF GOLD TRADING.
THIS PLUS THE AGREED PROVISIONS ON GOLD (GLOBAL LIMITS
ON MONETARY HOLDINGS, NO OFFICIAL PRICE, NO PEGGING
OF THE PRICE) SHOULD FORMALLY PRECLUDE A EUROPEAN
GOLD BLOC. INFORMALLY, THE MORE SIGNIFICANT DETERRENTS
ARE THE CLUB OF U.S. GOLD SALES AND GERMAN UNWILLINGNESS
TO PLAY.

RECOMMENDATION. THAT YOU AUTHORIZE OUR WEIGHING-IN ON
TREASURY'S SIDE REGARDING U.S. ACCEPTANCE OF WEAKER

GOLD TRADING RULES.

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